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THE WASHINGTON POST
15 July 1981

A Security Breakdown

By George Lardner Jr.
Washington Post Staff Writer

The CIA has a reputation for making the strictest security checks in the U.S. intelligence community, but its investigation of Max Hugel appears to have been a hurry-up, seven-day job that failed to sound even a mild alarm about his complex business career.

Hugel, who held one of the CIA's most sensitive posts, wasn't particularly helpful himself. His dealings with two Wall Street brokers in the early 1970s involved what Hugel described as attempted "blackmail," but he said he saw no need to report this or other details of the acrimonious relationship when he joined the agency earlier this year.

The CIA's investigation posed a sharp contrast to the measured pace outlined in an official description of the agency's standard procedure.

Reaction from members of the Senate Intelligence Committee late yesterday indicated that the Hugel matter could cause problems for the Reagan administration on Capitol Hill.

As deputy director for operations, the post he resigned yesterday, Hugel had access to the government's top secrets and directed the agency's global network of covert intelligence agents.

The first interviews concerning Hugel were conducted by the CIA's Office of Security beginning Jan. 14, just one week before Hugel started work at the agency, and the last were completed on Jan. 16.

The records indicate that Hugel had been "cleared" at some CIA echelons on Jan. 19 and was given final approval by the Office of Security, pending some overseas checks, on Jan. 21, the day Hugel started work at the agency.

Some of the interviews, including a set in the New York area that contained just a whisper of criticism, were not put together and synopsized until March 6, several weeks after Hugel had been given his first promotion, to deputy director for administration.

Through it all, however, the Office of Security, which is responsible for investigating everyone hired at the agency, from top officials down to the cleaning crews, evidently found nothing to arouse its suspicions about Hugel's business dealings or any other facet of his life.

Under a longstanding directive from the director of central intelligence, last updated in 1976, anyone to be granted access to "sensitive compartmented information" — which is a notch above top secret

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They are uniformly full of praise, depicting Hugel as a hard-driving millionaire whose "workaholic" habits constitute his biggest failing.

In all, 28 people were interviewed in New York, New Jersey, New Hampshire and Florida, although nine were just short-time neighbors and aquaintances of acquaintances with nothing of substance to say.

Those questioned at length included Manchester (N.H.) Union Leader publisher William Loeb and other individuals that Hugel gave as references. They included his tax adviser in New York and a business associate in Florida who owns a penthouse near Hugel's in Bal Harbour.

The CIA also checked with what it called "developed informants," but this is apparently a catchall category that includes everyone, except neighbors, whom Hugel did not list as references.

For instance, Robert Howard, president of the Centronics Data Computer Corp., who had known Hugel for more than 20 years, was listed as a "developed informant." So was Roy Nagagawa, successor to Hugel as chief executive officer of Brother International Corp. in Piscataway, N.J., and an acquaintance since World War II.

The flavor of the interviews is reflected by those conducted Jan. 16 in the Miami area, where Hugel was described as "hard-driving, very adept, intelligent, capable of working well under pressure" — a man wealthy enough to relax, but who was, nonetheless, accustomed to working 18 to 20, sometimes 24 hours a day.

Police records turned up nothing but three speeding tickets in Nashua, N.H., one in 1976 and two in

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WALL STREET JOURNAL
15 July 1981

CIA Aide Quits After Allegation Of Impropriety

Deputy Director Max Hugel Denies Published Report Of Stock Fraud Charges

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON—Max Hugel, the controversial chief of the Central Intelligence Agency's spy operations, resigned after a published report that he engaged in improper and possibly illegal securities activities in 1974.

The report in the Washington Post concerned Mr. Hugel's relations with McNell Securities Corp., which acted as a market maker in the stock of Brother International Corp., a consumer electronics company Mr. Hugel once headed.

According to the charges in the Post, while Mr. Hugel was president of Brother International, he leaked confidential information to the McNell firm about the company and a concern with which it did business and for which Mr. Hugel later worked, Centronics Data Computer Corp.; he tried to manipulate the price of Brother International's stock, and he funneled money to McNell Securities in an unsuccessful effort to keep the firm afloat. Mr. Hugel denied the charges.

The Post quoted tape recordings of conversations between Mr. Hugel and Thomas McNell, the head of the securities firm, in which some of the activities allegedly were discussed.

McNell Securities eventually became a branch office of Executive Securities Corp., which has since gone out of business. Some Executive Securities' officials were indicted in 1977 for misappropriating money that was supposed to be used to buy Centronics Data stock for customers.

All of those indicted pleaded no contest and were fined and placed on probation, according to the Securities and Exchange Commission.

An official of the Securities and Exchange Commission said he wasn't aware of any current investigation of the allegations against Mr. Hugel. The commission customarily doesn't disclose the existence of investigations.

In a letter of resignation to CIA director William Casey, Mr. Hugel said the allegations against him were "unfounded, unproven and untrue." But he added that they have become a burden that would be unfair to impose on the agency. Mr. Casey said he accepted Mr. Hugel's resignation "with deepest regret."

The White House, meanwhile, tried to play down and separate itself from the controversy. White House spokesman David Gergen said President Reagan's aides didn't learn of the charges until last week, when some reporters were rumored to be looking into them. The CIA did an "extensive" background check on Mr. Hugel before his appointment, Mr. Gergen said, but apparently didn't uncover the allegations. Mr. Gergen said that didn't surprise him, as it is "literally impossible to talk to every individual who has ever known" an individual who is being investigated.

As far as the White House is concerned, Mr. Gergen said, the "matter is closed" by Mr. Hugel's resignation. Mr. Gergen said neither the President nor his aides forced Mr. Hugel's departure, but he praised Mr. Hugel for his "sensitivity" in leaving.

The appointment of 56-year-old Mr. Hugel as the CIA's spymaster was controversial because he lacked experience in covert operations. His biggest asset was considered to be his loyalty to Mr. Casey, for whom Mr. Hugel worked during the presidential campaign. Mr. Casey was President Reagan's campaign manager.

Mr. Hugel's supporters praise his toughness, but his detractors have a different view. As one put it, Mr. Hugel is "a man with no people skills, no political skills and absolutely no discretion."

The CIA said Mr. Casey has appointed John Stein, a career officer, to succeed Mr. Hugel as deputy director for operations.

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THE WASHINGTON POST
15 July 1981

THE WASHINGTON STAR (GREEN LINE)
15 July 1981

Operations Chief of CIA Quits Post

Hugel Denies Charges Of Stock Maneuvers

By Jeremiah O'Leary
Washington Star Staff Writer

Max Hugel resigned his job as the CIA's chief spymaster yesterday because of allegations by former business associates of improper stock market practices in the mid-1970s.

The White House said President Reagan does not feel Hugel's sudden departure reflects badly on CIA Director William J. Casey, who made the 56-year-old former businessman and campaign aide his personal choice for one of the most sensitive intelligence posts in the government.

Hugel quit after it was reported that two former associates accused him of a number of improper acts — all intended to boost the price of stock in a firm he headed.

Hugel called the charges "unfounded and untrue," but said they "have become a burden which I no longer believe is fair to impose on the administration, the agency, my family and the splendid men and women who work with me." White House officials said President Reagan was saddened by the events leading to the resignation.

"There is a sadness here that this happened to this man after seven years had elapsed and because of newspaper articles about him," presidential assistant David R. Gergen told reporters yesterday.

"The administration is not embarrassed. The alleged activities happened seven years ago, not during his service to the administration. He has conducted himself with sensitivity. There has been no hard proof that Mr. Hugel engaged in these sorts of activities."

Senior White House officials said Casey is not in any trouble as far as Reagan is concerned although there reportedly was some resentment in the Reagan inner circle when the newly named CIA chief chose Hugel to be deputy director for operations without first consulting the White House.

"The president believes Bill Casey has done a first-rate job at the CIA," Gergen said. "The president has great faith in the people he appoints and when they appoint others. Bill was active in dealing with this situation and it was brought to a rapid conclusion. From the White House point of view, the matter is closed."

But the White House did not explain how the alleged business dealings of the 56-year-old Hugel went undetected in the course of what officials said was an "extensive" security check on Hugel conducted by the CIA before he took charge of the agency's covert operations under Casey.

There was no FBI security check of Hugel, Gergen told reporters.

He quoted E. Pendleton James, director of personnel at the White House, as saying he had been unable to ascertain whether Hugel's former business associates, brothers Thomas and Samuel NcNell, had attempted to furnish him tapes and documents on Hugel's business dealings as they claimed.

The brothers instead gave their material, accusing Hugel of defrauding them and improper stock market manipulation, to The Washington Post, which published a lengthy story on them yesterday.

In accepting Hugel's resignation, Casey named John Stein, a career CIA oficer, to become DDO.

Several newspapers and a major wire service have been pursuing the details of Hugel's background ever since he turned up at CIA headquarters, first as a special assistant to Casey and then as chief of DDO. Hugel and Casey had become well-acquainted in the 1980 campaign when Hugel was a top official of the Reagan campaign in New Hampshire.

Gergen said Hugel resigned on his own and denied that White House chief of staff James A. Baker III had called Casey to tell him Hugel had to go after the allegations appeared in print yesterday.

He said Casey has not talked with Reagan about the case.

Gergen gave this scenario of the events leading up to Hugel's "Dear Bill" letter of resignation, mde public yesterday by the CIA:

The White House became aware of rumors about Hugel last Wednesday. Fred Fielding, the White House counsel, apparently was the first White House official to learn that Hugel was under intense scrutiny.

Fielding informed Baker of what he had heard last Thursday. Baker called Casey and there was a meeting at the White House involvin Baker, Fielding, Casey and Hugel. Stanley Sporkin, the CIA counsel, continued working Friday on what the White House still regarded as a rumor.

The Post said in its story yesterday that on Friday Hugel, accompanied by two lawyers of his own and Sporkin, met with reporters and editors at the newspaper's offices to review the accusations.

But Gergen said no one knew the facts when Reagan went to Camp David for the weekend. Baker alerted President Reagan late Monday for the first time that newspaper stories were about to break about Hugel's business activities.

Yesterday morning, after the evidence furnished by the McNell brothers had appeared across the nation, Reagan's "big three" advisers — Baker, counsellor Edwin Meese III and Michael K. Deaver — were told by Casey that Hugel had decided to resign.

Reagan was informed of the resignation yesterday shortly before the CIA announcement was made public. "It is our understanding from Casey that he resigned on his own," Gergen said.

In his letter to Casey, Hugel said he felt he could no longer effectively serve Casey or the agency but said he is available for any future assignment in which he could be of help.

Casey wrote back that he accepted the resignation with "deepest regret".

He said he understood Hugel's position and would respect his wishes, adding, "I greatly appreciate your efforts for this agency. You have deservedly earned the respect of those with whom you have worked."

Gergen said, in answer to a question as to whether there would be further investigation of the charges leveled at Hugel, "There is a five-year statute of limitations (on the accusations made) and this happened seven years ago. But there may be things here to which the statute may not apply."

The allegations against Hugel originated with former Wall Street broker Thomas R. McNell, 49, and his brother, Samuel F. McNell, 47, who said they and Hugel joined during the mid-1970s in prohibited actions intended to boost the stock of his New York wholesale firm, Brother International Corp.

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NEW YORK TIMES
15 JULY 1981

Ex-C.I.A. Deputy Is Viewed As Lacking Professionalism

By ROBERT PEAR
Special to The New York Times

WASHINGTON, July 14 — Before his resignation today, Max C. Hugel was in charge of the largest directorate in the Central Intelligence Agency, the branch responsible for covert action and clandestine counterintelligence overseas.

Mr. Hugel did not fit the mold for that job in two respects: He had not had a career in professional intelligence work; instead, he had been a businessman in New Hampshire and worked on the Reagan campaign staff in last year's Presidential election. And, unlike most of his predecessors, he did not come from an Ivy League-style "gentlemen's club" background.

Mr. Hugel's title was Deputy Director for Operations. Before March 1973, the job bore the title of Deputy Director for plans. William E. Colby, who held the position in 1973 before he became Director of Central Intelligence, said in an interview today that he had asked James R. Schlesinger, then Director of Central Intelligence, to change the name because "plans" was a euphemism for what that part of the agency really did.

Besides Mr. Colby, two other men who had previously been in charge of the directorate for plans or operations, were promoted from within the agency to Directors of Central Intelligence. They were Allen W. Dulles and Richard Helms. Mr. Dulles and Mr. Colby were graduates of Princeton, and Mr. Helms was a graduate of Williams College, an old liberal arts college in northwestern Massachusetts.

'The Heart of the Agency'

"It would be very unusual to have a nonprofessional, a businessman, an ordinary civilian running the directorate for operations," said Thomas Powers, author of a recent biography of Mr. Helms. "That's certainly never happened before. That's one position where you want a professional. That's where the heart of the agency always was, and that's the office in which Presidents were always most interested."

Presidents took an interest in the office because its covert agents could, at the President's behest, foment unrest in foreign countries. In addition, the Deputy Director for Operations supervised the recruitment of spies overseas, collecting minutely detailed information about low-level clerks in Soviet embassies abroad.

The Deputy Director also had authority over counterintelligence operations designed to learn about Soviet activities in general, and supervised all forms of psychological warfare conducted and information disseminated by the agency overseas.

Officials in the Reagan Administrtion said that William J. Casey, the Director of Central Intelligence, had recruited Mr. Hugel because Mr. Casey thought his rough-and-tumble style was exactly what was needed to rebuild the clandestine service. Some agency officials had become extremely cautious about conducting covert operations after years of Congressional investigations exposing unsuccessful and aborted projects, including plans to assassinate foreign leaders.

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which forced him to resign.

All of Mr. Hugel's predecessors had experience in intelligence work before they took charge of clandestine operations. Those who have held the position since Mr. Dulles are Frank G. Wisner, from 1952 to 1958; Richard M. Bissell Jr., 1958 to 1962; Mr. Helms, 1962 to 1965; Desmond FitzGerald, 1965 to 1967; Thomas Karamessines, 1967 to 1973; Mr. Colby, 1973; William E. Nelson, 1973 to 1976; William Wells, 1976-77, and John McMann, 1977 to 1980.

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THE BALTIMORE SUN
15 July 1981

Spy chief quits amid allegations of improprieties

By Ernest B. Furgurson
Washington Bureau of The Sun

Washington—Max Hugel, a Reagan campaign operative appointed to a supersensitive post in the Central Intelligence Agency, resigned yesterday amid allegations that he had engaged in questionable stock market activities.

Mr. Hugel, formerly a New Hampshire businessman, served as deputy director for operations, in charge of clandestine operations abroad, which is the agency's top spy job and is usually assigned to veteran intelligence professionals.

He was put there by Director William J. Casey, who was chairman of Mr. Reagan's 1980 campaign, and the choice stirred a furor within the agency and on Capitol Hill.

Yesterday, after allegations about his stock market practices were printed, the administration quickly got rid of Mr. Hugel and emphasized that he had not been a presidential nominee in the first place.

Mr. Casey named John Stein, who is a career CIA man, to move into the deputy director slot from his post as an assistant to Mr. Hugel.

Mr. Hugel was quoted in a CIA press release as insisting that the allegations are "unfounded and untrue." The press release also said he was leaving because the matter had become "a burden which he believes is no longer fair to impose on the agency and the men and women who have worked with him."

The White House learned of the assertions against Mr. Hugel last Wednesday, six days before they became public. They involve improper market manipulation and insider trading that allegedly took place several years ago.

Thomas McNell, who headed a Wall Street brokerage firm, and his brother, Samuel McNell, a former business associate of Mr. Hugel, made the charges. Samuel McNell maintained that Mr. Hugel defrauded him in a deal involving Brother International Corporation, an electronics firm headed by Mr. Hugel in the mid-1970s.

Mr. Hugel allegedly used Thomas McNell's firm for questionable market manipulations and dealing with insider information. *The Washington Post* reported that the McNells secretly tape-recorded conversations that support their charges.

The activities allegedly took place before 1975, so the five-year statute of limitations in such cases has run out. As a result, prosecution is unlikely.

Judah Best, Mr. Hugel's attorney, said Mr. Hugel had not violated any laws and denied the charges. The CIA release said, "Mr. Hugel wishes to emphasize that the allegations against him concern his private life and have no connection whatsoever to his association with CIA or to its activities."

As deputy director for operations, Mr. Hugel, 56, had access to the government's highest secrets and directed its international network of undercover agents. His move into that post was disclosed in mid-May, after he became a special assistant to Mr. Casey January 21, then was deputy director for administration before getting the operations job.

Mr. Hugel learned Japanese in the Army and served in military intelligence for two years before leaving the military and setting up a Japan-based import-export firm to distribute sewing machines and typewriters.

This successful venture was merged into Centronics Data Computer Corporation, of Hudson, N.H., and Mr. Hugel served as its executive vice president until March, 1980, when he quit to join the Reagan campaign full-time. He ran the Reagan primary effort in Nashua, N.H., and later was picked by Mr. Casey to organize national ethnic and volunteer organizations for the campaign.

William Loeb, the ultra-conservative editor of the *Manchester Union-Leader*, takes credit for getting Mr. Casey and Mr. Hugel together.

When Mr. Casey [illegible] deputy director of the CIA for operations, former agency officials who were free to speak out expressed disbelief. One said, One member of the Reagan transition team on intelligence called the selection "a living disaster."

Eight weeks later, White House officials are saying that they were concerned even then about the choice, but did not intervene because Mr. Casey was entitled to pick his own staff. Mr. Casey's unquestioned authority to do so apparently was founded on his own high standing with Mr. Reagan, formed after Mr. Casey came in and reorganized a loose, free-spending Reagan campaign staff early last year.

At the White House, press spokesman David R. Gergen said, "Mr. Hugel has conducted himself with sensitivity in this matter. This administration is not embarrassed. . . . As far as the White House is concerned, the matter is closed. Mr. Hugel has resigned."

He said rumors of the allegations came to Fred Fielding, White House counsel, last Wednesday. They were relayed Thursday to James A Baker III, chief of staff, who called Mr. Casey to the White House to discuss the matter.

When Mr. Fielding met with Mr. Hugel Friday, the deputy director said he had done nothing wrong. Stanley Sporkin, CIA general counsel, looked into the matter. Mr. Reagan was advised Monday, and yesterday morning, Mr. Gergen said, top White House staffers were told by Mr. Casey that Mr. Hugel was resigning on his own initiative. Another version was that his departure had been urged by the White House.

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WASHINGTON STAR (GREEN LINE)
15 July 1981

Professionals at CIA Greet New

Critics Charged Hugel Lacked Experience

By Henry S. Bradsher
Washington Star Staff Writer

Both present and former CIA officials said yesterday that the departure of political appointee Max Hugel as the agency's chief spymaster and his replacement by a career professional would bring what one of them called "a considerable sense of relief" to most agency career operatives.

Both in the agency headquarters in McLean and among congressional overseers, there had been doubts about Hugel because of his lack of experience in the spying business. But there had also been defenders of the idea that a fresh outsider was needed by the CIA to run its ingrown clandestine operations.

The defenders were not so vocal yesterday as the critics of Hugel, a 56-year-old millionaire New Hampshire businessman.

Hugel, under fire because of accusations of improper stock dealings in the past, announced his resignation yesterday, and was replaced by John Henry Stein.

Stein, a 48-year-old Yale graduate who had served in numerous CIA assignments abroad and been a deputy spymaster for the last four years, went to Capitol Hill as soon as his promotion was announced. He met with some of the members who oversee the intelligence community.

Hugel got his CIA job through service in Ronald Reagan's presidential campaign last year, during which he served as an aide to the campaign director, William J. Casey. When Casey became CIA director at the beginning of the Reagan administration, he took Hugel along, still as a personal aide, and several months later made him deputy CIA director for operations — referred to inside the agency as DDO.

The appointment outraged many career men. With few exceptions, the agency's spymaster had always been someone who had grown up within its ranks, had taken the risks of their dangerous trade, personally knew many of the hundreds of agents he would direct, and understood what risks had to be asked of them.

Hugel was seen as an amateur. This attitude quickly communicated itself to other intelligence agencies with which the CIA works closely.

One former CIA senior official reported that some foreign agencies had "found him uncultivated and naive about the intelligence business, and they wouldn't trust him with any information."

Casey trusted him and defended him against criticism, however, until the stock manipulation charges arose.

Casey wanted familiar persons with whom he felt comfortable to help him deal with the large new bureaucracy he had taken over. He was known to feel that Hugel's lack of experience was less important than his administrative ability, and that Hugel's two deputies could supply the expertise needed for agency operations.

Stein and Clair E. George, 50, another professioal with extensive foreign service, were the deputies, with Stein as the senior man in the job.

This team was supervising a rebuilding of the CIA's clandestine services. Casey's predecessor as director, retired Adm. Stansfield Turner, had completed a process that began before him of retiring large numbers of older spies and secret operatives — to the accompaniment of strong complaints from within the agency that its muscle was being cut, rather than fat. The recruiting and training of new agents was under way.

President Reagan reportedly had given his personal friend, Casey, the green light to enhance the CIA's clandestine capabilities as part of a buildup of U.S. strength for worldwide competition with the Soviet Union.

sense of relief.

One former official said that "everyone was trying to make the thing work" with Hugel as DDO, "but no one was happy about it."

Another retired CIA man who has stayed in touch with agency developments offered a somewhat different opinion, however. He said that, "on the whole, he [Hugel] was very well-accepted. Those who were unhappy were those who had vied for the job themselves," including Stein before Hugel was appointed.

One close observer of the CIA said it could do the agency a lot of good to have someone with a broad background in foreign business, such as Hugel has, but "is not owing anyone anything" within the close brotherhood of CIA professionals.

Stein served four years as an army lieutenant stationed in the United States after graduating from Yale in 1955. Then he began an overseas career with the CIA that included assignments in Brussels, Belgium; Kinshasa, Zaire; Yaounde, Cameroon; and Phnom Penh, Cambodia.

Officially identified as a consular officer, Stein arrived in the newly opened American embassy in Phnom Penh the month after Prince Norodom Sihanouk was ousted from power in March 1970 and replaced by the American-supported Lon Nol government. He served there for several years.

A former CIA director, William E. Colby, said yesterday that "Stein is a very good man... He's a general operations officer with a good background. He's a very effective fellow.

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NEW YORK TIMES
15 JULY 1981

TOP C.I.A. OFFICIAL RESIGNS, DENYING FRAUD ALLEGATIONS

REPLACEMENT IS SELECTED

Reagan 'Saddened' by Events — Agency Is Criticized on Checks Before Hiring

By PHILIP TAUBMAN

Special to The New York Times

WASHINGTON, July 14 — Max C. Hugel, chief of clandestine operations at the Central Intelligence Agency, resigned today in the wake of allegations that he participated in fraudulent securities transactions when he managed an electronics business in the 1970's.

Calling the allegations, made by two former business associates, "unfounded, unproven and untrue," Mr. Hugel submitted a letter of resignation today to William J. Casey, Director of Central Intelligence, who had chosen him for the post. The letter said that the allegations had become "a burden which I no longer believe is fair to impose" on the Reagan Administration, the agency and his family.

Mr. Casey immediately named John H. Stein, a career C.I.A. employee, to succeed Mr. Hugel in the sensitive post of Deputy Director for Operations.

Problem for Administration

The allegations and the sudden resignation presented the Administration with an unwelcome controversy when it is trying to gain passage of major tax-cut legislation and avoid public airing of internal foreign policy disagreements.

The immediate effect appeared to include a slight chilling in the relationship between the White House and Mr. Casey, who managed President Reagan's election campaign last year and has been a close adviser to the President.

And further complicating matters was the disclosure today that Mr. Casey was found by a Federal court to have participated in an investment offering in 1968 for a farming company that made misrepresentations to investors. Mr. Casey is appealing that decision.

Reagan Described as 'Saddened'

Officially, the White House said that Mr. Reagan was "saddened" by the events that led to Mr. Hugel's resignation. Officials, however, emphasized that Mr. Hugel had not been nominated or screened by the White House. Privately, one senior aide to Mr. Reagan said that James A. Baker 3d, the White House chief of staff, had told Mr. Casey that Mr. Hugel "ought to move on for the good of the President."

The accusations against Mr. Hugel were made by Thomas R. McNell and his brother, Samuel F. McNell, two former business associates who ran a small brokerage agency called McNell Securities Corporation in the early 1970's. To support their allegations, the McNells provided The Washington Post with tape recordings of telephone conversations they had with Mr. Hugel. The Post published a partial transcript of the tapes today.

The resignation was generally greeted with relief in Congress and in the intelligence community, where Mr. Hugel's appointment to the largest directorate in the C.I.A. had been widely opposed on the grounds that he lacked sufficient experience in intelligence matters. In addition, unlike his predecessors, Mr. Hugel did not come from the Ivy League-style "gentlemen's club" background.

Setback for Agency's Head

The resignation is a setback for Mr. Casey's efforts to reduce the visibility of the C.I.A. and restore tranquility within the agency, after a decade of upheaval and public scrutiny. Two weeks ago in a memo to agency employees, Mr. Casey wrote that "the difficulties of the past decade are behind us."

Moreover, the incident raised serious questions about the effectiveness of the intelligence agency's security investigations of prospective employees. Stanley Sporkin, the C.I.A.'s general counsel, said that the investigation of Mr. Hugel had been "thorough and complete," but he acknowledged that no hint of any irregular or questionable business practices by Mr. Hugel had been unearthed.

Senator Daniel Patrick Moynihan, Democrat of New York, ranking minority member of the Senate Intelligence Committee, said today that the C.I.A. "must ask itself how it failed to learn" information relating to the accusations against Mr. Hugel.

White House officials said they did not believe that the resignation of Mr. [redacted]

Brokers Admit Wrongdoing

At the time, Mr. Hugel was president of the Brother International Corporation, a manufacturer of sewing machines, typewriters and computer components, and was negotiating a major business deal with Centronics.

The McNells, who acknowledge their participation in improper stock transactions, said that the information provided by Mr. Hugel gave them an advantage in buying and selling stock in the companies.

They also charged that Mr. Hugel had improperly funneled money to McNell Securities by making personal loans to Samuel McNell and that he had coordinated the phased purchase of ... shares of his company's stock to create the appearance of market demand.

In the transcript published by The Post, Mr. Hugel is quoted as providing Thomas McNell with financial information about Brother International and Centronics on Dec. 5, 1974, several months before it was made public. Thomas McNell told The Post in an interview, "I knew everything that was going on inside of both companies, and I was banging the hell out of it for my clients."

Hugel Denies Violations

In his letter of resignation and in public statements, Mr. Hugel has denied any wrongdoing. In a statement released last night, he said, "The fact of the matter — and this is incontrovertible — is that I have never made a penny of unlawful profit or done anything else to bring discredit upon my company, my family, myself or the United States."

According to Mr. Sporkin, the agency's Office of Security found no evidence of improper business practices in its investigation of Mr. Hugel.

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President Reagan reportedly had given his personal friend, Casey, the green light to enhance the CIA's clandestine capabilities as part of a buildup of U.S. strength for worldwide competition with the Soviet Union.

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sense of relief.

One former official said that "everyone was trying to make the thing work" with Hugel as DDO, "but no one was happy about it."

Another retired CIA man who has stayed in touch with agency developments offered a somewhat different opinion, however. He said that, "on the whole, he [Hugel] was very well-accepted. Those who were unhappy were those who had vied for the job themselves," including Stein before Hugel was appointed.

One close observer of the CIA said it could do the agency a lot of good to have someone with a broad background in foreign business, such as Hugel has, but "is not owing anyone anything" within the close brotherhood of CIA professionals.

Stein served four years as an army lieutenant stationed in the United States after graduating from Yale in 1955. Then he began an overseas career with the CIA that included assignments in Brussels, Belgium; Kinshasa, Zaire; Yaounde, Cameroon; and Phnom Penh, Cambodia.

Officially identified as a consular officer, Stein arrived in the newly opened American embassy in Phnom Penh the month after Prince Norodom Sihanouk was ousted from power in March 1970 and replaced by the American-supported Lon Nol government. He served there for several years.

A former CIA director, William E. Colby, said yesterday that "Stein is a very good man... He's a general operations officer with a good background. He's a very effective fellow.

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WILMINGTON EVENING JOURNAL (DE)
15 JULY 1981

New turmoil wracks the CIA

By Michael J. Sniffen
Associated Press

WASHINGTON — With the CIA's spy chief already forced out by allegations of stock manipulation, CIA Director William J. Casey faces a federal judge's ruling that he knowingly misled investors in a separate business venture in the late 1960s.

Max Hugel, an outsider whose appointment had irked career intelligence officers, resigned as the agency's deputy director of operations Tuesday, hours after The Washington Post published allegations that in 1974 he slipped insider information about a firm he headed to two Wall Street brokers.

Later Tuesday, reporters discovered an overlooked May 19 ruling by U.S. District Judge Charles E. Stewart Jr. in New York against Casey and others in a damage suit over their efforts to raise capital for an unsuccessful farming corporation in 1968.

Deputy White House press secretary Larry Speakes said today that President Reagan had told his top aides "I retain full confidence" in Casey. Speakes said he did not know when the president found out about the May ruling.

Speakes told reporters that "these matters came up in the past, as far back as 1973. They've been the subject of at least one and possibly two Senate hearings. They were part of what we knew when Mr. Casey was appointed to the directorship of the CIA."

Speakes said he was "reasonably sure" Casey referred to the case on forms filled out before he was nominated to the job.

"This is a matter still in the courts and subject to appeal so I shouldn't comment on the merits of the case," he said.

"Director Casey has done an excellent job with the CIA," Speakes said, describing him as "an experienced man" in the intelligence area.

Both Casey and the CIA refused to comment on Stewart's ruling, and President Reagan said Hugel's departure was distressing because "once again we seem to be taking an accusation as a conviction."

Hugel said, "I have done nothing wrong."

Casey, 68, and Hugel, 56, are both self-made millionaires. Casey brought Hugel with him to the agency from the Reagan presidential campaign. As campaign director, Casey had admired Hugel's style and work as chief of ethnic group activities.

Casey, who broke into spy work with the Office of Strategic Services, the CIA's World War II predecessor, had endured harsh criticism from former CIA officers for putting Hugel in one of the agency's most sensitive positions. Hugel's intelligence background was limited to some post-war work for the Army in Japan.

Before the day was out Tuesday, Hugel was out of the CIA — replaced by a career officer hailed by the "old boy" network — and attention had shifted to the financial dealings of Casey himself, who headed the Securities and Exchange Commission during the Nixon administration.

Judge Stewart's 19-page ruling came in a 1974 class-action suit filed by investors in a New Orleans firm called Multiponics Inc., of which Casey was an officer and director.

In an effort to raise capital for the firm, Casey and the other defendants issued a stock-offering circular in October 1968 which said the company's assets at the time included seven operating farm units and two tracts of uncleared land, Stewart said.

But in September 1969 and July 1970 statements filed with the SEC, the firm stated that "of the seven so-called operating farming units, two were not operating at all at the time they were acquired by the company; two were not operating other than sharecropping and one was operating at a loss," Stewart wrote.

The offering circular also stated that $1,354,000 of the proceeds from the sale of debentures would be used to retire short-term debt, Stewart said. In fact, the judge said, the SEC registration statements showed that the company used $917,000, or about 68 percent of the proceeds, to repay officers and directors of Multiponics for loans to the firm.

Although noting that the defendants denied deliberate concealment, Stewart said they "do not dispute that they knew the material facts misstated or omitted."

Stewart still must rule on whether the investors relied on the offering circular to buy Multiponics securities and therefore are entitled to damages.

In his resignation letter Hugel called the allegations against him "unfounded, unproven and untrue."

But he said, "These allegations ... have become a burden which I no longer believe is fair to impose on the administration, the agency,

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my family and the splendid men and women who work with me."

Casey accepted Hugel's resignation with "deepest regret" and immediately named career CIA official John Stein as his successor.

At the White House, chief spokesman David R. Gergen said Casey discussed the impending Post story last Thursday with White House chief of staff James A. Baker III and White House counsel Fred Fielding, who met later with Hugel.

The White House denied a Washington Star report that Baker had told Casey to get rid of Hugel. "He resigned on his own initiative and with consultation with Mr. Casey," Gergen said.

Gergen said he anticipates no official investigation, noting that a five-year statute of limitations applies to the allegations made against Hugel. He said it will be up to Casey to decide whether to review why the CIA's background check of Hugel had not turned up the allegations.

Tuesday evening, Reagan told reporters: "I was distressed that once again we seem to be taking an accusation as a conviction. He resigned because he didn't want to in any way cause trouble for the administration. It should be remembered there's been nothing but the allegation."

Hugel's swift departure, however, drew praise from Cord Meyer, a leader among former CIA officers.

The CIA does not announce in-house appointments, but in mid-May Meyer disclosed Hugel's appointment in the newspaper column he now writes.

Hugel was in command of the agency's clandestine service. That made him responsible for intelligence-gathering around the world and for the CIA's most delicate work — covert operations, such as supporting guerrilla fighters in some countries or attempting to influence foreign politicians.

Meyer said Tuesday, "I feel they recognized their mistake and moved quickly to repair it. I thought Casey was taking a very long gamble putting him in that job because of his inexperience, perhaps an unnecessary one because there were so many qualified men."

Casey Misled Investors on Agribusiness Company, Judge Rules

By Dan Dorfman

A federal judge has ruled that William J. Casey, director of the Central Intelligence Agency, knowingly misled investors in a $3.5 million fund-raising effort for a now-defunct New Orleans company while serving as a board member and secretary of the firm.

Judge Charles E. Stewart Jr. of the Southern District of New York concluded that Casey was one of a number of officers and directors of Multiponics Inc. who permitted distribution of an offering circular that they knew contained false and misleading information and omitted material facts that were detrimental to the company's prospects.

The judge's findings, set forth in a "memorandum decision" May 19 that has until now escaped public disclosure, represent an outgrowth of a suit filed by unhappy Multiponics investors in October, 1974.

Multiponics was organized in January, 1968, to engage in farming operations, agribusiness and the acquisition of land. The company went bankrupt in February, 1971, after it was unable to raise sufficient financing to continue in operation. A public offering of stock had been contemplated, but never came to pass.

Casey, chairman of the Securities and Exchange Commission and head of the Export-Import Bank during the Nixon and Ford administrations, refused to comment on Judge Stewart's findings.

Casey's attorney, Arnold Jacobs, said it would be inappropriate for the CIA director to comment because a motion for reargument has been filed.

"We're asking him [Stewart] to reconsider and we're hopeful he'll reverse his position," said Jacobs.

Jacobs said that the circular in question, distributed to potential investors in October, 1968, was largely prepared by the now-defunct investment banking firm of Glore Forgan. Casey, Jacobs said, relied primarily on that draft.

Multiponics, originally known as Ivanhoe Associates, was formed by acquiring farm properties from the company's founders in exchange for capital stock.

Casey personally invested $145,614 in the company, and Multiponics, in acquiring his properties, took over his mortgage debt of $301,000. Multiponics also assumed the mortgage debts of all other founders — an amount that exceeded $2.7 million.

At no point in the offering circular were prospective investors informed that the company had assumed the multimillion-dollar debt of its founders.

In his findings, Stewart observed that because Multiponics stated in its offering circular that the company's growth and success depended on long-term financing, a potential investor was likely to be particularly interested in the indebtedness of the company.

The judge also was critical of what he regarded as another significant omission in the circular — the sizable amount of the proceeds from the proposed fund-raising effort that would be used to repay loans made to Multiponics by its officers and directors.

In a later prospectus, it was revealed that of some $1.35 million that would be used to retire short-term debt, $917,000, or 68 percent, would be used to repay such loans.

Whether Casey, who is said by Jacobs to have lost most, if not all, of his investment, made any such loans or received any repayment could not be immediately determined.

One of the judge's most telling findings, in which he concluded misstatement of facts, centers on a couple of disclosures in the circular about the company's farm properties.

The circular said, in brief, that the company's properties included seven operating farm units and two tracts of as-yet-uncleared land, and that Ivanhoe Associates was formed through the merger of seven operating farm units and was operated until recently by an experienced group of agricultural, managerial and financial entrepreneurs.

Subsequent prospectuses filed by Multiponics in September, 1969, and July, 1970, raise serious questions about the validity of these statements.

In those prospectuses, it is stated that of the seven so-called operating farm units, two were not operating at all at the time they were acquired, two were operated by sharecroppers (farmers who lease the land and keep a chunk of the profits), and one was operating at a loss.

Judge Stewart observed that the defendants, including Casey, contend that the misstatements or omissions in the circular concerning the prior use of the farms "really had no significance in assessing the likelihood that Multiponics would succeed." Their reasoning: "The properties which Multiponics acquired were selected on the basis of their potential for large-scale 'agribusiness farming.'"

Rejecting this defense, Stewart asserted that the extent to which farms were operating at the time the company was formed would be significant in assessing present earnings capacity and capacity to raise capital necessary for expansion.

He added that the statements concerning the scope of the farming operations assume even greater significance when considered in the light of the undisputed facts that the company assumed substantial debt when it acquired the property.

The judge's findings note that the directors of Multiponics were present at a board meeting on Feb. 2, 1968, at which copies of a draft of the offering were distributed and discussed.

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In his summation, Stewart observed that the defendants do not dispute that they knew material facts were misstated or omitted. Indeed, these defendants, he said, were personally involved in the underlying transactions.

Thus, he added, "there is no genuine issue of fact as to these defendants' knowledge of the material misstatements or omissions."

Presumably, the plaintiffs, at some point, will seek damages. Their attorneys declined comment.

The plaintiffs, according to court papers, consist of IIT, an international investment trust, and George Marshall Houx and others suing individually and on behalf of a class of all investors.

Aside from Casey, there are seven other defendants, all of whom served as directors of Multiponics at some point. They are Carl Biehl, Stanley Burkley, N. Leslie Carpenter, Alfred J. Moran, Lawrence Orbe, James Swinny and Joseph Zuccaro.

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PHILADELPHIA INQUIRER
15 July 1981

Business dealings by 2 CIA officials under question

Chief of agency spy network quits over stock allegations

By Robert L. Jackson
Los Angeles Times Service

WASHINGTON — Max Hugel resigned yesterday as chief of clandestine activities for the CIA in the wake of charges that he engaged in improper stock market activity seven years ago.

The resignation of Hugel, 56, a Brooklyn businessman and reputed millionaire, was forced by the White House. It was the first time in the CIA's 34-year history that a top official had departed because of a challenge to his personal integrity.

Hugel was a close friend of the CIA director, William J. Casey, and had helped Casey run President Reagan's election campaign last fall. In a letter to Casey made public yesterday, Hugel said that allegations of stock manipulation made against him by two former associates were "unfounded, unproven and untrue."

Nonetheless, a senior White House official who asked not to be identified said that it was "important to cut Hugel off quickly" because the charges of stock fraud by two former Wall Street brokers, first published yesterday in the Washington Post, had damaged Hugel's credibility and could taint the CIA. The charges were bolstered by tape-recorded conversations involving Hugel that were quoted in the newspaper.

Casey concurred in the White House view that Hugel had to resign, another administration official said. However, because Casey had hired Hugel as a top assistant in January and had promoted him in May as chief of worldwide clandestine activities, Hugel's fall was particularly awkward for Casey. As chairman of the Securities and Exchange Commission during the Nixon administration, Casey was expected to be

Publicly, the White House had praise yesterday for Hugel's past work for Reagan in the New Hampshire primary and his handling of ethnic and citizens groups in the campaign.

Presidential assistant David Gergen told a White House news briefing that Hugel had resigned from the CIA on his own initiative and that his alleged business misconduct, which occurred in 1974, "does not reflect on the CIA or the administration."

Gergen added that "Casey has done a first-rate job at the CIA," where officials were first apprised last week of the Post's investigation into Hugel's activities.

"As far as the White House is concerned, the matter is closed," Gergen said.

Both the Justice Department and the SEC declined official comment on whether they would investigate charges that Hugel had improperly provided inside information on his now-defunct electronics firm, Brother International Corp., to two stockbrokers in an effort to stimulate stock sales.

Privately, sources at both agencies said that they probably would conduct an inquiry but pointed out that Hugel had received no financial gain — whatever his intentions had been — and that the 1974 episode was outside the five-year statute of limitations for any possible stock fraud indictment.

The former brokers, Thomas R. McNell and his brother Samuel F. McNell, who approached the Post with their allegations, said that they had accepted inside information and $131,000 from Hugel to promote the sale of his stock without making the [illegible] newspaper published excerpts from 16 phone conversations with Hugel

that the brothers had secretly recorded showing that Hugel took part in the plan.

The McNells were quoted by the Post as saying that they were bitter about having gone bankrupt and having been required to repay narly $400,000 in loans to Hugel over the last seven years.

The CIA's Office of Security, which conducted a background investigation of Hugel earlier this year, failed to uncover this information. It will be up to Casey to decide whether to review that failure, Gergen said.

In his letter of resignation, Hugel said that the McNells' allegations were "a burden which I no longer believe is fair to impose on the administration, the agency, my family and the splendid men and women who work with me. ... Under the present circumstances, I feel I can no longer effectively serve you or the agency."

Casey accepted the resignation with "deepest regret" and immediately named career CIA official John Stein as his successor.

Hugel's lack of intelligence background (he did some post-war work with the Army in Japan) raised a howl of protest that he was grossly unqualified when he was appointed to oversee intelligence-gathering around the world and the CIA's most delicate work — covert operations.

Casey defended Hugel as an aggressive businessman who had organized ethnic groups in the Reagan campaign and would bring an independent view to the operations of the clandestine services.

No details were released about Hugel's successor. However, the State Department's 1974 Biographic Register lists only one John Stein, 48, a Yale graduate. It shows that Stein served as a Foreign Service reserve political officer, a position typically used as a CIA cover, in Belgium, the Congo, Laos and Libya. He was in Laos from 1970 to 1972, when CIA officers there organizing a covert army of tribesmen against communist rebels.

The Associated Press contributed

PHILADELPHIA INQUIRER
15 July 1981

Business dealings by 2 CIA officials under question

Court finds that Casey deliberately misled investors

By Dan Dorfman
Special to The Inquirer

A federal judge has ruled that William J. Casey, director of the CIA, knowingly misled investors in a $3.5 million capital-raising effort for Multiponics Inc., a now-defunct New Orleans company, while serving as a director of that corporation.

Judge Charles Stewart of the Southern District of New York concluded that Casey was one of several officers and directors of Multiponics Inc. who permitted an offering circular — a letter to potential investors — to be distributed when they knew that it contained both false and misleading information and omitted material facts that were detrimental to the company's prospects.

Casey was a board member and secretary for Multiponics. The offering circular was part of an effort to raise capital for the company.

The judge's findings — which were set forth May 19 in a "memorandum decision" that until now had not been publicly disclosed — represent an outgrowth of a suit filed by unhappy Multiponics investors in October 1974.

The charges of stock manipulation leveled yesterday against Casey's friend, Max Hugel, who has resigned from the CIA, do not appear to be related to Casey's troubles with the Multiponics investors.

Multiponics was organized in January 1968 to engage in farming operations and agribusiness and in related land acquisitions. The company went bankrupt in February 1971, after it was unable to raise sufficient financing to continue operations. A public offering, which had been contemplated, never materialized.

Casey, chairman of the Securities and Exchange Commission and head of the Export-Import Bank during the Nixon and Ford administrations, refused to comment on Stewart's findings.

Casey's attorney, Arnold Jacobs, a partner in the firm of Shea & Gould, said that it would be inappropriate for the CIA director to comment because a motion for reargument has been filed.

"We're asking him [Stewart] to reconsider and we're hopeful he'll reverse his position," said Jacobs, who is handling Casey's defense in conjunction with Milton Gould, the law firm's senior partner.

Jacobs said the offering circular in question — distributed to investors in October 1968 — was largely prepared by the now-defunct investment banking firm of DuPont, Glore Forgan. He said Casey relied primarily on that draft.

The plaintiffs, according to court papers, are ITT, an international investment trust, and George Marshall Houx and others suing individually and on behalf of a class of all purchasers.

Aside from Casey, there are seven other defendants — all of whom at some time served as directors of Multiponics. They are Carl Biehl, Stanley Burkley, N. Leslie Carpenter, Alfred J. Moran, Lawrence Orbe, James Swinny and Joseph Zuccaro.

Multiponics, originally known as Ivanhoe Associates, was formed by acquiring a series of farm properties from the company's founders in exchange for capital stock. Casey personally invested $145,614 in the company, and Multiponics, in acquiring his properties, took over his mortgage debt of $301,000.

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Multiponics also assumed the mortgage debts of all other founders — an amount that exceeded $2.7 million. At no point in the offering circular were investors informed of the company's assumption of the multimillion-dollar debt of its founders.

Stewart, commenting critically, said that because Multiponics had stated in its offering circular that the company was dependent on long-term financing for its growth and success, a potential investor was particularly likely to be interested in the indebtedness of the company under consideration. In a similar vein, the judge also criticized the offering circular for what he regarded as another significant omission, namely, the sizable amount of the proceeds from the proposed fund-raising effort that would be used to repay loans made to Multiponics by its officers and directors.

In a later prospectus, it was revealed that, of about $1.35 million that would be used to retire short-term debt, $917,000 or 68 percent, would be turned over to company officials for loan repayments.

Whether Casey, who is said by Jacobs to have lost most, if not all, of his investment, made any such loans — or received any repayment — could not be immediately determined.

One of the judge's most telling findings — in which he concluded misstatement of facts — centers on two disclosures in the offering circular about the company's farm properties. In brief:

- The company's present properties include seven operating farm units and two tracts of as yet uncleared land.
- Ivanhoe Associates was formed through the merger of seven operating farm units and operated until recently by an experienced group of agricultural, managerial and financial entrepreneurs.

However, subsequent prospectuses filed by Multiponics in September 1969 and July 1970 raise serious questions about the validity of these statements.

Those prospectuses state that of the seven so-called operating farm units, two were not operating at all at the time they were acquired. Another two were not operating other than for sharecropping (the leasing of the land to farmers who operate the land and keep a chunk of the profits). And one was operating at a loss.

The judge said that the defendants, including Casey, contend that the misstatements or omissions in the offering circular about the prior use of the farms "really had no significance in assessing the likelihood that Multiponics would succeed."

He added that the statements concerning the scope of the farming operations assume even greater significance when considered in the light of the undisputed facts that the company assumed substantial debt when it acquired the property.

THE WASHINGTON POST
15 July 1981

Casey Misled Investors on Agribusiness Company, Judge Rules

By Dan Dorfman

A federal judge has ruled that William J. Casey, director of the Central Intelligence Agency, knowingly misled investors in a $3.5 million fund-raising effort for a now-defunct New Orleans company while serving as a board member and secretary of the firm.

Judge Charles E. Stewart Jr. of the Southern District of New York concluded that Casey was one of a number of officers and directors of Multiponics Inc. who permitted distribution of an offering circular that they knew contained false and misleading information and omitted material facts that were detrimental to the company's prospects.

The judge's findings, set forth in a "memorandum decision" May 19 that has until now escaped public disclosure, represent an outgrowth of a suit filed by unhappy Multiponics investors in October, 1974.

Multiponics was organized in January, 1968, to engage in farming operations, agribusiness and the acquisition of land. The company went bankrupt in February, 1971, after it was unable to raise sufficient financing to continue in operation. A public offering of stock had been contemplated, but never came to pass.

Casey, chairman of the Securities and Exchange Commission and head of the Export-Import Bank during the Nixon and Ford administrations, refused to comment on Judge Stewart's findings.

Casey's attorney, Arnold Jacobs, said it would be inappropriate for the CIA director to comment because a motion for reargument has been filed.

"We're asking him [Stewart] to reconsider and we're hopeful he'll reverse his position," said Jacobs.

Jacobs said that the circular in question, distributed to potential investors in October, 1968, was largely prepared by the now-defunct investment banking firm of Glore Forgan. Casey, Jacobs said, relied primarily on that draft.

Multiponics, originally known as Ivanhoe Associates, was formed by acquiring farm properties from the company's founders in exchange for capital stock.

Casey personally invested $145,614 in the company, and Multiponics, in acquiring his properties, took over his mortgage debt of $301,000. Multiponics also assumed the mortgage debts of all other founders — an amount that exceeded $2.7 million.

At no point in the offering circular were prospective investors informed that the company had assumed the multimillion-dollar debt of its founders.

In his findings, Stewart observed that because Multiponics stated in its offering circular that the company's growth and success depended on long-term financing, a potential investor was likely to be particularly interested in the indebtedness of the company.

The judge also was critical of what he regarded as another significant omission in the circular — the sizable amount of the proceeds from the proposed fund-raising effort that would be used to repay loans made to Multiponics by its officers and directors.

In a later prospectus, it was revealed that of some $1.35 million that would be used to retire short-term debt, $917,000, or 68 percent, would be used to repay such loans.

Whether Casey, who is said by Jacobs to have lost most, if not all, of his investment, made any such loans or received any repayment could not be immediately determined.

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Judge Stewart observed that the defendants, including Casey, contend that the misstatements or omissions in the circular concerning the prior use of the farms "really had no significance in assessing the likelihood that Multiponics would succeed." Their reasoning: "The properties which Multiponics acquired were selected on the basis of their potential for large-scale 'agribusiness farming.' "

Rejecting this defense, Stewart asserted that the extent to which farms were operating at the time the company was formed would be significant in assessing present earnings capacity and capacity to raise capital necessary for expansion.

He added that the statements concerning the scope of the farming operations assume even greater significance when considered in the light of the undisputed facts that the company assumed substantial debt when it acquired the property.

The judge's findings note that the directors of Multiponics were present at a board meeting on Feb. 2, 1968, at which copies of a draft of the offering were distributed and discussed.

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In this connection, Stewart observed that the defendants do not dispute that they knew material facts were misstated or omitted. Indeed, these defendants, he said, were personally involved in the underlying transactions.

Thus, he added, "there is no genuine issue of fact as to these defendants' knowledge of the material misstatements or omissions."

Presumably, the plaintiffs, at some point, will seek damages. Their attorneys declined comment.

The plaintiffs, according to court papers, consist of IIT, an international investment trust, and George Marshall Houx and others suing individually and on behalf of a class of all investors.

Aside from Casey, there are seven other defendants, all of whom served as directors of Multiponics at some point. They are Carl Biehl, Stanley Burkley, N. Leslie Carpenter, Alfred J. Moran, Lawrence Orbe, James Swinny and Joseph Zuccaro.

LONDON DAILY TELEGRAPH
15 July 1981

Spy chief quits in row over Wall St deals

By DAVID SHEARS in Washington

THE Central Intelligence Agency's "chief spymaster," Mr Max Hugel, resigned yesterday amid allegations that he had engaged in dubious stock market practices before he joined the C I A.

His fall from the post of Deputy Director for Operations came after the WASHINGTON POST had described his alleged activities in a report. It placed the agency in a murky light when it has been trying to restore its reputation, battered by embarrassing disclosures and congressional inquiries.

Mr Hugel, 56, denied any impropriety, but said the allegations put an unfair burden on the C I A.

Mr William Casey, the C I A director, accepted his deputy's resignation "with deepest regret" and appointed Mr John Stein, a veteran intelligence officer, to succeed him.

The affair will do nothing to enhance the reputation of Mr Casey, for he was responsible for Mr Hugel's appointment to the sensitive position.

Known and trusted

Intelligence officials protested when Mr Casey announced his choice of Mr Hugel for the Deputy Director for Operations has access to the American Government's closest secrets and directs the C I A's network of underground agents around the world.

But Mr Casey assured President Reagan that Mr Hugel was a skilled manager who had proved himself in the election campaign. The C I A chief also said he had known and trusted Mr Hugel for 20 years.

A C I A spokesman recalled yesterday that Mr Hugel had been thoroughly screened before his appointment.

The allegations against him were taken to the WASHINGTON POST by two brothers, Thomas and Samuel McNell, former Wall Street brokers who were his business associates.

They go back to the mid-1970s, when according to their story, Mr Hugel tried to boost the value of shares in the New York wholesale firm he headed by deceiving investors.

"Several securities experts, consulted about the case, agree that Hugel's participation in these activities, if true, would be at least improper and perhaps illegal," the WASHINGTON POST reported.

The McNells "admit their own culpability in these activities," the repor added. It went on to quote Mr Hugel as accusing the McNells of threatening him with blackmail when he had tried to sever the business connection with them and collect hundreds of thousands of dollars in loans.

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NEW YORK DAILY NEWS
15 July 1981

CIA's top spy resigns

Washington (AP)—Max Hugel, a millionaire outsider whose appointment irked career intelligence officers, resigned yesterday as overseer of the CIA's spy network, hours after a report that he slipped inside information about a firm he once headed to two Wall Street brokers.

Hugel called the allegations by two former business associates "unfounded, unproven and untrue."

In a letter of resignation to CIA Director William J. Casey, Hugel said the charges "become a burden which I no longer believe is fair to impose on the administration, the agency, my family and the splendid men and women who work with me."

Casey accepted the resignation with "deepest regret" and immediately named career CIA official John Stein as Hugel's successor.

CASEY HIMSELF became the subject of controversy yesterday when a federal judge ruled that the CIA chief knowingly misled investors in a $3.5 million fund-raising effort for a now-defunct New Orleans company, Multiponics Inc., while serving as a board member and secretary of that corporation.

Judge Charles Stewart of the Southern District of New York concluded that Casey was one of a number of Multiponics officers and directors who permitted distribution of an offering circular in conjunction with the fund-raising efforts when they expressly knew the memorandum contained false and misleading information and omitted material facts detrimental to the company's prospects.

The judge's findings—which were set forth in a "memorandum decision" last May 19 and had thus far escaped public disclosure—represent an outgrowth of a suit filed by unhappy Multiponics investors in October 1974.

Casey, chairman of the Securities and Exchange Commission and head of the Export-Import Bank during the Richard Nixon and Gerald Ford administrations, refused to comment on Stewart's findings.

CASEY'S ATTORNEY, Arnold Jacobs, a partner in the firm of Shea & Gould, said it would be inappropriate for the CIA director to comment because a motion for reargument has been filed.

Max Hugel—chief spy quits

William Casey—CIA director is cited

"We're asking him (Stewart) to reconsider and we're hopeful he'll reverse his position," said Jacobs, who is handling Casey's defense in conjunction with Milton Gould, the law firm's senior partner.

The Hugel resignation followed a report in The Washington Post on the allegations that he gave the inside information to the stockbrokers.

At the White House, chief spokesman David R. Gergen said Casey discussed the impending Post story last Thursday with White House Chief of Staff James A. Baker 3d and White House counsel Fred Fielding and that Fielding met later with Hugel.

Gergen said Hugel was not pressured to quit: "He resigned on his own initiative and with consultation with Mr. Casey."

GERGEN SAID he anticipates no official investigation, noting that a five-year statute of limitations applies to the kind of allegation made against Hugel.

He said it will be up to Casey to decide whether to [illegible] the CIA's background check of Hugel had not turned up the allegations.

Although the CIA does not announce in-house appointments, it was learned in mid-May that Casey had selected Hugel, a 56-year-old New Hampshire executive who had worked with Casey on Ronald Reagan's presidential campaign, to be deputy director of operations.

As "DDO," Hugel, whose intelligence background was limited to some postwar work with the Army in Japan, was in command of the agency's clandestine service. That made him responsible for intelligence-gathering around the world and for the CIA's most delicate work—covert operations, such as supporting guerrilla fighters in some countries or attempting to influence foreign politicians.

HUGEL RELEASED a statement Monday night through his lawyer, Judah Best, that said he had "never made a penny of unlawful profit or done anything else to bring discredit upon my company, my family, myself or the United States."

The Post quoted New York brothers

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CHICAGO TRIBUNE
15 July 1981

No. 2 man at CIA resigns

Spy chief denies tips on stocks

From Tribune Wire Services

WASHINGTON—Max Hugel, the CIA's spy chief, resigned Tuesday hours after the Washington Post said he had once illegally supplied two Wall Street stock-brokers with advance inside information about a firm he headed.

The Central Intelligence Agency said in a press release that Hugel denied the report, which concerned his activities before joining the CIA, but that he concluded the allegations "have become a burden which he believes is no longer fair to impose on the agency and the men and women who have worked with him."

Hugel, the agency's deputy director for operations, had released a statement Monday night through his lawyer, Judah Best, that said he had "never made a penny of unlawful profit or done anything else to bring discredit upon my company, my family, myself, or the United States."

CIA Director William J. Casey immediately appointed John Stein, a veteran intelligence career officer, as Hugel's permanent replacement, the statement said.

HUGEL JOINED the CIA only in February as Casey's personal choice for the key position of chief of the agency's clandestine services.

A CIA statement said:

"Mr. Max Hugel, CIA's deputy director for operations, today tendered his resignation. Mr. Hugel said he had concluded that, although allegations made in respect to certain business activities seven years ago are unfounded and untrue, the allegations have become a burden which he believes is no longer fair to impose on the agency and the men and women who have worked with him.

"Mr. Hugel wishes to emphasize that the allegations against him concern his private life and have no connection whatsoever with his association with CIA or to its activities."

THE POST quoted New York brothers Thomas R. McNell, 49, and Samuel F. McNell, 47, as saying they and Hugel participated in a series of prohibited practices in 1974 to promote the stock of Hugel's electronics company, Brother International Corp.

They said Hugel gave them inside information about the company's potential earnings in advance of disclosure to other investors and improperly funneled $131,000 to their brokerage firm, McNell Securities.

The newspaper said the appointment of Hugel, who worked in President Reagan's election campaign last year as an organizer of ethnic groups, surprised top White House aides.

Hugel told the Post in an interview Friday that the brothers tried to "blackmail" him when he attemped to sever business dealings with them and collect several hundred thousand dollars he contended they owed him.

THE STATEMENT Hugel released Monday said he was "deeply disappointed that this newspaper has determined to lend its credit and dignity to the accusations of two men such as the McNell brothers."

"The fact of the matter—and this is incontrovertible—is that I have never made a penny of unlawful profit or done anything else to bring discredit upon my company, my family, myself, or the United States," it said.

Best acknowledged that Hugel, 56, joined Samuel McNell in 1974 in an investment that turned out to be unprofitable.

But the lawyer said the CIA's extensive pre-employment background investigation gave Hugel a clean bill of health.

"He was independently wealthy then and now," Best said. "He's not subject to influence or greed. That's what made him a good appointment, and that's what makes this all absurd."

CIA spokesman Dale Peterson also noted that Hugel had been investigated extensively before his appointment.

Max Hugel

Statement issued through lawyer denies Washington Post charges.

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RADIO TV REPORTS, INC.

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FOR PUBLIC AFFAIRS STAFF

PROGRAM CBS Evening News STATION WDVM-TV CBS Network

DATE July 15, 1981 7:00 PM CITY Washington, DC

SUBJECT Senator Goldwater Calls for William Casey's Ouster

DAN RATHER: President Reagan says he wants William Casey to remain as CIA Director in spite of newly disclosed information that a federal judge ruled Casey knowingly misled investors in a financial deal more than a decade ago.

But on Capitol Hill, as Robert Schakne reports, there is some feeling that Casey must go.

ROBERT SCHAKNE: Chairman Barry Goldwater of the Senate Intelligence Committee has been telling fellow senators today that William Casey will have to go as Director of the CIA. Goldwater, who will not discuss the matter with reporters, is described as being very angry at the way Casey has been running the CIA since January, and in particular at Casey's appointment of Max Hugel as Chief of the Clandestine Service.

Other senators, speaking privately, say that with Goldwater's opposition, Casey's job is in grave jeopardy. One senator says there is a consensus that under Casey's directorship the CIA had become too politicized, that career professionals had been passed over in favor of political appointees, and that the Hugel selection was a reflection of Casey's bad judgment.

Both President Reagan and Vice President Bush said that the CIA Director still had their confidence.

PRESIDENT RONALD REAGAN: There's no controversy. I have complete trust in him.

REPORTER: [Inaudible]

PRESIDENT REAGAN: Oh, no.

SCHAKNE: Members of the Intelligence Committee say that President Reagan has a logical successor to Casey in Admiral Bobby Inman, now the CIA's Deputy Director. Inman enjoys bipartisan support, and in particular the strong support of Senator Goldwater.

One committee source said that Casey was a victim of a rebellion by CIA professionals, or, as the source put it, the CIA bureaucracy. The bureaucracy, the source said, wanted Casey out because of the Hugel appointment, and is delighted with the events of the past two days.

LOS ANGELES TIMES
15 July 1981

STAT

CIA's New Spy Chief Hugel Quits

Friend of Casey, He Denies Giving Illegal Stock Tips

By ROBERT L. JACKSON, *Times Staff Writer*

WASHINGTON—Max Hugel resigned Tuesday as chief of clandestine activities for the Central Intelligence Agency in the wake of charges that he engaged in improper stock market activity seven years ago.

The resignation of Hugel, 56, a self-made Brooklyn businessman and reputed millionaire, was forced by the White House. It marked the first time in the CIA's 34-year history that a top official has left because of a challenge to his personal integrity.

Hugel was a close friend of CIA Director William J. Casey and had helped Casey run President Reagan's successful election campaign last fall. In a letter to Casey made public Tuesday, Hugel said allegations of stock manipulation made against him by two former associates were "unfounded, unproven and untrue."

Accepted "With Regret"

Nonetheless, a senior White House official, who declined use of his name, said it was "important to cut Hugel off quickly" because the charges of stock fraud by two former Wall Street brokers, first published Tuesday in the Washington Post, had damaged Hugel's credibility and could besmirch the agency itself. The charges were bolstered by tape-recorded conversations involving Hugel that were quoted in the newspaper.

Casey accepted Hugel's re[illegible]tion with "deepest regret" a[illegible] mediately named career CIA official John Stein as his successor.

Casey concurred in the White House view that Hugel had to resign, another Administration official said. However, because Casey had hired Hugel as a top assistant last January and had promoted him in May as chief of worldwide clandestine activities, Hugel's fall seemed to spell trouble for Casey as well.

It was particularly troublesome for Casey because, as a former chairman of the Securities and Exchange Commission during the Richard M. Nixon Administration, Casey was expected to be sensitive to improper stock deals. Casey last May hired as general counsel of the CIA the SEC's respected enforcement chief, Stanley Sporkin.

'A Rank Amateur'

Hugel's appointment was a matter of controversy at the time it was made, with several members of the intelligence community charging that Hugel's lack of experience disqualified him for the post. Cord Meyer, a former CIA official who now writes a newspaper column, wrote at the time that the intelligence agency "was stunned this week by the selection of a rank amateur to head its most sensitive directorate."

After Hugel bowed out Tuesday, Meyer said: "I feel they recognized their mistake and moved quickly to repair it. I thought Casey was taking a very long gamble putting him in that job because of his inexperience, perhaps an unnecessary one because there were so many qualified men to fill it." Meyer said he believes the CIA "troops" will be well pleased with Stein. [illegible]

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NEW YORK TIMES
15 JULY 1981

Judge Asserts Casey, C.I.A. Chief, Misled Stock Buyers in '68

By PAUL L. MONTGOMERY

William J. Casey, the Director of Central Intelligence, knowingly participated with several others in an investment offering for a farming company in 1968 that "omitted and misrepresented facts" to investors, according to a Federal District Court decision handed down in May.

The ruling on May 19 by Judge Charles E. Stewart Jr. of the Federal District Court in Manhattan named Mr. Casey as one of the officers and promoters of Multiponics Inc. who was responsible for the misleading offering. Mr. Casey was then a private lawyer and was listed as the secretary and a director of the company. The company went into bankruptcy proceedings in 1971 and is now defunct.

Judge Stewart's decision, which was based on documents and admissions by the defendants, including Mr. Casey, was part of a drawn-out lawsuit in which disgruntled investors are seeking to recoup their losses. Many other issues in the case, including damages, remain to be litigated, and Mr. Casey's lawyers are seeking a reargument of the portion decided by Judge Stewart.

One of Mr. Casey's lawyers, Arnold S. Jacobs of the firm of Shea & Gould, said yesterday that his client was "taking the position that he did not violate the Federal security law."

"Mr. Casey was a passive investor" who was not directly involved in the management of the company," said Mr. Jacobs. "He lost a lot of money in the company, virtually all of his investment." Mr. Jacobs is representing Mr. Casey with Milton Gould, the firm's senior partner.

A spokesman for the C.I.A. said that Mr. Casey had no comment on the case.

Mr. Casey's involvement with Multiponics and the subsequent lawsuit came up in 1973 in Senate confirmation hearings on his appointment as Under Secretary of State for Economic Affairs. Mr. Casey, then chairman of the Securities and Exchange Commission, denied wrongdoing and said, "It's a question of a business decision." Senator Jacob K. Javits said later he was satisfied Mr. Casey had done nothing wrong.

The kind of suit in which Mr. Casey is a defendant is a common action by investors against officers of a bankrupt company. "This is your garden-variety lawsuit that any businessman-lawyer might run into in the course of his career," said Wallace L. Timmeny, who has handled similar cases for the Washington law firm of Kutak, Rock & Huie. "That is absolutely it."

Multiponics, formerly called Ivanhoe Associates, was incorporated in Delaware in 1968. It consisted of 43,000 acres of soybean, rice, cotton and corn land in Louisiana, Mississippi, Arkansas and Florida assembled by the company's founders, including Mr. Casey. Among the other founders were Stanley E. Burkley of Natchez, Miss.; N. Leslie Carpenter, an investment banker from Natchez; Alfred J. Moran, a New Orleans industrialist; Lawrence F. Orbe 2d, a New Orleans investment banker; and James H. Swinny, a Natchez businessman. All are defendants in the lawsuit.

After incorporation in 1968, the company made a private investment offering of 35,000 units consisting of $100 par value subordinated debentures, shares of common stock and warrants to purchase additional shares. In 1969 and again in 1970, the company registered a public offering of stock with the Securities and Exchange Commission, which Mr. Casey then headed, but the offering was never actually made and the company soon became insolvent. It is the difference between the language of the private offering and the proposed public offering that forms much of the dispute in the lawsuit brought by investors in the original 35,000 units.

According to Judge Stewart's ruling, there were several important omissions or mistatements in the private offering, later corrected in the public offering. The private offering implied that the seven farms that made up Multiponics were operating and profitable, whereas the later statement acknowledged that two farms were not operating at the time they were acquired, two were only being sharecropped, and a fifth was operating at a loss.

An omission cited by the judge in the original offering concerned the terms under which Multiponics acquired the farms from its founders. The private offering did not mention that the company had taken over the mortgages of the farms, creating considerable built-in indebtedness. This was acknowledged in the proposed public offerings.

Mr. Casey, according to the court papers, was part owner of three of the seven farms when they were sold to Multiponics, and received Multiponics securities in exchange. According to the records, he invested $145,614 in the land, the largest single investment among the founders, and Multiponics assumed $301,000 in mortgages while issuing him 65,973 shares of stock.

After reviewing the evidence, Judge Stewart concluded:

"In sum, there is no genuine issue of material fact that the offering statement omitted and misrepresented facts that would have been material to a reasonable investor in determining whether to purchase Multiponics stock."

THE WHITE HOUSE

Office of the Press Secretary

PRESS BRIEFING
BY
LARRY SPEAKES

The Briefing Room
July 15, 1981

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THE WHITE HOUSE

Office of the Press Secretary

PRESS BRIEFING
BY
LARRY SPEAKES

July 15, 1981

The Briefing Room

11:10 A.M. EDT

MR. SPEAKES: The President today is announcing his intention to appoint Donald Eugene Santarelli to be a member of the Board of Directors of the Overseas Private Investment Corporation; Carlos C. Campbell to be Assistant Secretary of Commerce for Economic Development Administration.

The President's schedule is continuing now with a meeting with members of the small business community and they will be in the briefing room at the conclusion of this briefing for radio and television coverage. At 11:30, a meeting with James Roosevelt to discuss the 100th anniversary of his father's birth and celebrations, observances around that. At 12:00 noon, meetings with U.S. ambassadors. We've put out this list and they are U.S. ambassadors that are departing for overseas duty. The President will be in the residence after 12:30 this afternoon working on his briefing books for the Ottawa Summit.

We are handing out a notice to the press regarding the Ottawa Summit. Tomorrow's briefings other than the regular White House briefing are the 10:30 a.m. briefing by senior administration officials on non-proliferation and a presidential statement that will be handed out -- a written statement at that time.

Q Where will that be?

MR. SPEAKES: Pardon?

Q Where is that?

Q Will you have all the documents there as well as --

MR. SPEAKES: Documents will be in both places. Is that going to be in 450, Mort?

MR. ALLIN: 450.

MR. SPEAKES: 450.

Q Who's going to brief?

MR. SPEAKES: We are not firm. Yes, it's senior administration officials but it's reportable for immediate release. And the briefing on the Ottawa summit will be -- it looks more like 3:00 now tomorrow, room 450. Secretary Haig will brief for radio and television coverage followed by background briefing by administration officials from the White House, State, and Treasury who have been involved in summit preparations. The regular White House briefing, I presume, tomorrow will be at 12:00.

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MR.SPEAKES: I think the President would remain in town until Congress acts, yes.

Q Was Howard Baker reflecting a conversation he had with O'Neill?

MR.SPEAKES: Yes.

Q In which O'Neill said, "You can have one or the other, but not both"?

MR. SPEAKES: I'm not sure that -- I don't know how that came about, but it was basically that. You sum it up very well.

Q Take your pick?

MR. SPEAKES: Yes. Or if there was a choice, I'm not sure how, how it actually came from Baker to --

Q When you indicate that O'Neill backed off slightly by saying he was willing --

Q Slightly? (Laughter.)

Q What makes the President think that Speaker O'Neill can come through on such, even if he made such a committment, given the way you have all these hundreds of people on the conference committee, and it's a really complicated thing?

MR. SPEAKES: Well, I don't know, we --

Q He hasn't been notably successful in producing everything he's promised until now.

MR. SPEAKES: You have to take the Speaker at his word. He's a strong leader.

Q Did the President offer the Speaker anything in return for this speedy action?

MR.SPEAKES: No.

Q Cuff links? (Laughter.)

Q "You get the other one when they're on my desk". (Laughter)

Q Larry, this is something the President's been hammering and hammering at this theme in public remarks and so forth. Are you claiming this as a big victory, having the Speaker's committment?

MR.SPEAKES: No, I just merely state the facts.

Q Are you through with your announcements?

MR. SPEAKES: Yes.

Q Well, in that case, let's ask you about Mr. Casey. Yesterday, you had the White House press office said the charges against Mr. Casey in the Multiponics case had been raised during his confirmation hearings going all the way back to 1971 with the Securities and Exchange Commission. It develops, according to our information, it was not raised in 1971, it was not raised in the Export-Import Bank

hearings, it was not raised in the public record during his confirmation for the CIA, although it was raised by staff. Could you respond to that?

MR.SPEAKES: Well, the response is that this information was provided to the President's council on the disclosure forms that we're required to -- all federal appointments are required to complete. There's a subject on pending litigation. That was listed there. There were discussions with Fred Fielding regarding this and other matters. It presumably could have been a part of the FBI investigation since these forms are provided to the FBI. This material is turned over to the Select Committee on Intelligence that conducted Director Casey's hearings. So the matter was there, whether it was raised in public hearings, whether the committee was satisfied with it, and the staff was satisfied with it, they did not raise it. I don't know.

This information, according to -- according to Fielding's recollection, had at least been a matter of discussion, in '75 at the Ex-Im and in '73 at the Under Secretary hearings. And as I said eariler, certainly the President retains full confidence in the Director of the Central Intelligence Agency.

Q Why is that? Why does he retain full confidence after the Judge ruled as he did in May? Because during the confirmation hearings, there had been no court decision in this case.

MR.SPEAKES: That's true, Sam, he does. That's his statement. The matter is still subject to further appeal within the court system, and I don't want to get involved in the merits of the case.

Q But does the President, or does anyone in the White House question the wisdom of Mr. Casey putting Hugel's name into nomination, after only the most cursory, apparently, of background checks?

MR.SPEAKES: First of all, it was a CIA appointment, not a Presidential appointment.

Q Yes, but does the White House question the wisdom of Mr. Casey's action is what I'm asking?

MR. SPEAKES: No.

Q Let me pursue the court business. While this has not occured yet, as I understand it, eventually there would be a charge of criminal violation in this case. Why not ask Mr. Casey to step aside until it has been fully adjudicated?

MR.SPEAKES: Well, Sam, we have elected not to do that and the President, once again, has expressed his full confidence in Director Casey. These matters have been raised several months ago within the White House, and they have been discussed in detail, and the decision was made first to submit the nomination to the Senate, and it was subsequently confirmed.

Q How far will the President back Casey?

If the court re-hearing results in the finding similar to the one in May, will you then continue to back him?

MR. SPEAKES: Sam, we'll just wait and see what happens.

Q When did the White House learn of the Judge's decision on the Casey matter?

MR. SPEAKES: The President learned of it yesterday afternoon when news accounts appeared on it. I do not know if anybody else in the White House knew it earlier. I don't think so.

Q Presumably Casey would have known about it.

MR. SPEAKES: Presumably, yes.

Q He didn't tell anybody at the White House about it?

MR. SPEAKES: Not that I'm aware of. I could check further to see if I could turn up anybody that was aware of it.

Q It's been a matter of public record since May.

Q Nobody paid any attention?

Q I didn't know about it.

MR. SPEAKES: No, Sam didn't know about it.

Q Larry, you said, "We have elected not to ask Mr. Casey to step aside." Who is "we"?

MR. SPEAKES: The President.

Q When did he make that determination?

MR. SPEAKES: He made it yesterday afternoon when these matters were raised and he continues the determination as of this moment.

Q So, he made a formal decision yesterday that Casey stays?

MR. SPEAKES: Yes.

Q Did he talk to Casey yesterday about this?

MR. SPEAKES: He did not talk to Casey. Casey was here yesterday, but they did not discuss this matter. And, as of about 10:30, he had not called Casey and I'm not sure whether they've talked or not.

Q Did he talk to Casey without discussing this matter yesterday, Larry?

MR. SPEAKES: They talked about matters that involved national security and there were others present. So, that was not a subject on the agenda.

Q But Larry, this is quite a serious thing. Do you have any idea why they didn't discuss this issue. It's kind of pressing, isn't it?

Q Was it before the President was told about it?

MR. SPEAKES: It could well have been because this meeting was one of the national security groups and that was at 1:45 yesterday.

Q Larry, in light of what we think we know now about -- the CIA background check appears to have been a rush-order, seven-day job. Is the White House is still taking the CIA's word for it that this check was thorough?

MR. SPEAKES: Yes. I think the seven-day check you referred to--if I read the paper correctly, it apparently was a check that continued over several months while Mr. Hugel was in various positions at the CIA.

Q Do you take Hugel's word in his contention that charges are unfounded, Larry?

MR. SPEAKES: That's his statement, Lester. Mr. Hugel has resigned and --

Q How do you feel? What does the White House feel, Larry?

MR. SPEAKES: Mr. Hugel has resigned and we've expressed our opinions extensively here yesterday.

Q Larry, who was in on the President's meeting on which the President decided to keep Casey?

MR. SPEAKES: I don't know.

Q Is the 1953 Executive Order on Qualifications for CIA Posts still enforced?

MR. SPEAKES: What does it say?

Q It says that anyone who makes misrepresentations or false statements does not qualify for a sensitive position in the agency.

MR. SPEAKES: I'm sure it is still enforced. We'd have to check and see if there's been any change in it since 1953.

Q Has anybody at the White House talked to Casey about this May court ruling?

MR. SPEAKES: I don't know whether there have been conversations or not. I don't know whether Fielding or Baker or anybody along those lines have talked to him.

Q Well, how could the President make a decision to keep Casey at the moment without haven't discussed it with him or having someone at the White House discuss it with him?

MR. SPEAKES: This has been a matter that is in our discussions with Casey prior to January 20th.

Q But not this court ruling? That's what we're asking about -- the May 19th court ruling?

MR. SPEAKES: It's true, but the pending litigation was definitely discussed, yes.

Q Yes, but a judge has made an initial finding.

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MR. SPEAKES: True.

Q Mr. Casey and his colleagues are appealing it, asking for a re-hearing, as I understand, but the finding is on the record and it goes against him, saying that he knowingly participated in withholding information from investors that they had a right to know.

How can a man like this be in a sensitive post like CIA Director without some trepidation here at the White House?

MR. SPEAKES: I asked the President and relayed to you his view and that is his view.

Q Larry, on Hugel, how is it that the President has not had his opinion of Casey changed at all by Casey's judgment in choosing Hugel in the first place and then putting him in the number two job over there?

I mean, is this the kind of judgment he hopes all his people would use in --

MR. SPEAKES: When the matter of Mr. Hugel came up, he resigned, and the President --

Q But that's not what I'm asking. I'm asking about the original decision to put him in that post with all the questions that were raised about his qualifications then and then number two with what came out later?

MR. SPEAKES: The President has expressed his viewpoint. I don't know how I can go beyond that.

Q Is it true that Jim Baker suggested to William Casey that Hugel ought to go or resign or something like that?

MR. SPEAKES: Sam, I've seen those reports. I think there was a telephone conversation, but as I understand it, and as we said here yesterday that there was no -- it was on Mr. Hugel's own that he decided to resign.

Q That wasn't the question. Did James Baker suggest to William Casey that Hugel ought to resign?

MR. SPEAKES: I don't know the answer to that. I think Baker is quoted in the newspaper this morning and spoke directly to a reporter yesterday which he said he did not.

Q Was the administration prepared to ride this out with Hugel had he not resigned?

MR. SPEAKES: Well, he resigned.

Q Yes, but I mean, there was no command decision that he should go, is what you're saying?

MR. SPEAKES: The matter never arose, Helen, since he did resign.

Q The matter never arose?

MR. SPEAKES: The thing broke in the paper at whatever time it hit your doorstep yesterday morning and --

Q No, you knew about it the previous Wednesday or Thursday.

MR. SPEAKES: -- and he resigned at [illegible]

MORE

Q By your own admission, you knew about it the previous Wednesday or Thursday.

MR. SPEAKES: I'm being a little facetious. We did not -- that matter never came up in that context as to whether to ride it out or not ride it out.

Q The press reported this morning that the White House was prepared to ask for his resignation from Casey if it had not been forthcoming. Do you have any insight on that?

MR. SPEAKES: Once again, the man resigned so he resigned. I'm told here that Baker says "no" on that.

Q James Baker says "no" about what?

MS. SMALL: Baker says "no" about the report late yesterday. He said he did not -- there was a report in the press yesterday,in a local newspaper,that it was at the instigation of James Baker that Casey had him resign and Jim said late yesterday as soon as he saw that report in the paper that that's absolutely not true.

Q And we're not playing with words about whether he asked or suggested or hinted or -- we're not doing that?

Q And it wasn't Mike Deaver that did it? There's another report that --

Q The President said, in talking about the Hugel case, stressed that only allegations had been raised, that the man had not been convicted, that there was not proof of wrongdoing on his part. Is it the standard of this administration to keep in office any official so long as no formal conviction or proof of misconduct has been established?

I'm just asking because I think it's a fair question. And what is the philosophical or ethical standard for maintaining in office public officials in this administration against whom serious allegations have been raised but not finalized in the legal sense?

MR. SPEAKES: Have we had another case?

Q Well, Mr. Casey may be a case.

MR. SPEAKES: We've stated our position on Mr. Casey and Mr. Hugel resigned and I don't know of any others.

Q Well, Mr. Casey, at least at one stage in the judicial process, has been found to be culpable in apparently a serious financial allegation of serious financial wrongdoing. Is it the President's philosophy or belief that officials should be maintained in office until the legal system is exhausted?

MR. SPEAKES: I don't want to make a general statement as a matter of policy, but in this case it's obvious what we're doing.

Q Well, are you making decisions on a case-by-case basis or is there an overriding standard by which all officials are to be judged?

MR. SPEAKES: I don't really know how to answer that.

Q Well, you ought to know how to answer it. I should

think, inasmuch as public integrity, on the part of government officials, has become a running issue over the years, as you well know.

MR. SPEAKES: We have only the one case that you raise on Mr. Casey in this administration and the President's made his decision in this case.

Q Larry, so it is a case-by-case?

Q Did he offer to stand aside, today?

MR. SPEAKES: I don't think they have --

Q Did he ask at all?

MR. SPEAKES: No. They have not talked and I don't think he has.

Q You're saying then that it's a case-by-case decision?

MR. SPEAKES: We've only had one case.

Q But what if you have a third and a fourth and a fifth?

MR. SPEAKES: When we get there we'll make that decision.

Q What you're saying, Larry, is there is no general standard that applies to everyone in this administration whether or not there is a present case? I mean, don't you have a plan, a policy, that automatically applies in cases such as this when they arise?

MR. SPEAKES: Bill, they vary from case to case and some allegations are more serious

MORE #130-7/15

than others. Some have more substance than others and I think we have a high ethical standard in this administration and it has been adhered to generally throughout the administration. And, yes, we will address them on a case-by-case basis.

Q Larry, on that point, don't you think the case against Mr. Casey has more substance than the case against Mr. Hugel in view of the fact that there is a judicial ruling against Mr. Casey?

MR. SPEAKES: The case against Mr. Hugel never got that far along because he resigned.

Q I wasn't asking about the Hugel case. I was asking. about the Casey case.

MR. SPEAKES: I don't want to make comparisons. Mr. Hugel resigned. The President has expressed confidence in Mr. Casey and that continues.

Q What if an appointee were to be indicted? Would he be expected to resign then?

MR. SPEAKES: That's a "what if." None have been.

Q Well, are you prepared to deal with that with a policy in place as soon as a question like that arises?

MR. SPEAKES: We would surely take it up with the White House counsel and appropriate counsel and --

Q You mean there is a question about what action would be taken in the case of an indictment?

MR. SPEAKES: Bill, it hasn't happened yet. That's what I'm trying to say. We would discuss it at --

Q But don't you have a standard, however?

MR. SPEAKES: We have high ethical standards in this administration and few, if any instances, have they been called into question.

Q But the height of these ethics varies with regard to the case. Is that what you're saying, Larry?

MR. SPEAKES: What?

Q You say you have high ethical standards, A. B, you say you're going to deal with it on a case-by-case basis. Therefore, the standard of ethics varies up and down. Is that correct?

MR. SPEAKES: No.

Q Well, then, can you explain what it is? I think we're all puzzeled, Larry.

MR. SPEAKES: Lester --

Q I don't understand, Larry. If you have a standard, if a standard is a standard, it means it is standard. (Laughter.)

MR. SPEAKES: Look. I brought this all the way from California for you. (Laughter.)

Q Let the record show there is a flyswatter in hand.

Q Larry, what about this? Do you have some kind of standard and if it is a standard, it applies uniformly, it appears to me, rather than on a case-by-case basis. That sounds like the State Department, Larry. (Laughter.)

MR. SPEAKES: Thank you, Lester.

Q One other question here, Larry. The difference between the Hugel and Casey matters may be significant in that Mr. Casey has already undergone part, at least, of the judicial process. There's also a difference in that Mr. Hugel was not a close personal friend of the President. Mr. Casey is and has been for some time. Is an individual's personal relationship with the President a factor in deciding these case-by-case matters?

MR. SPEAKES: No.

Q In other words, the President has the same ability to judge individuals that he doesn't know and hasn't known as he has judging individuals whom he's known for some time?

MR. SPEAKES: Yes.

Q Well, that's remarkable.

Q Did the President see Mr. Casey's FBI file before he was appointed?

MR. SPEAKES: I don't think the President looked at it. I think it was reviewed by Fred Fielding and the President was briefed on it.

Q Larry, does this administration have guidelines written down, ethical guidelines.

MR. SPEAKES: There's quite a legal, ethical standard that's laid down since 1973-74.

Q Does this administration though have its own legal opinion as other administration's have?

MR. SPEAKES: I don't think we have any written guidelines. I think that gets to the heart of your question.

Q You have no guidelines?

MR. SPEAKES: No written guidelines but if you would take a look at these forms we fill out before presidential appointment --

MS. SMALL: In the beginning we got all that stuff -- the Code of Ethics.

Q That's the law that you got.

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Q Is there or is there not some guideline or some legal opinion? You said no and then --

MR. SPEAKES: As I've tried to say, there are a whole series of laws and we certainly comply with those laws. We comply with the disclosure laws. They're quite extensive and yes, we do have some -- I don't know whether they're written. Maybe we did receive a packet of material when we can aboard here.

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MS. SMALL: I think it was the law on that.

MR. SPEAKES: That's what I'm trying to say.

Q Does the President subscribe here to situation ethics, Larry, in this packet?

MR. SPEAKES: I'm handed a note that I surely want to correct a misimpression that there was a need for a presidential decision about whether to ask Casey to step aside or remain. There was not an up or down decision. The President immediately decided that he had full confidence in the Director continuing.

Q The President immediately "decided"? Are you trying to explain there was no decision?

Q Why the need for a decision?

MR. SPEAKES: We're going at an awfully fine point here. They go in and say, "This has been raised against Casey," and he says, "I have no problem with that. I have full confidence in him." He said it again this morning.

Q So he did make a decision?

Q So there wasn't any discussion of whether Casey should leave?

MR. SPEAKES: No, that's right. I think that clarifies it.

Q What you've said on the record suggests that the President -- not suggests -- you have said definitely the President was informed about this matter.

MR. SPEAKES: That's right.

Q And said words to the effect that he has full confidence in Mr. Casey.

MR. SPEAKES: Sure, that's right.

Q And he sees no need to take any action. Now, that's a decision.

MR. SPEAKES: Okay.

Q I'm confused on the timetable of this review of Casey's disclosure form. In his original form that he filled out prior to his appointment, he disclosed the lawsuit that was pending. Now, you just said that this was reviewed by Fred Fielding and the President was briefed on it. But I didn't think Fred Fielding was on the staff as White House Counsel during the period that Casey's disclosure form was submitted.

MR. SPEAKES: Fred Fielding came on board as a counsel in the transition shortly after the election and his entire job, his entire waking until going to bed hours, were spent in conflict of interest, and that was his job, that was what he was hired to do and he became Counsel on January 20th.

Q And so in that role he reviewed this and you are saying he specifically briefed the President on the lawsuit aspect of this?

MR. SPEAKES: I'm not sure he briefed him on the lawsuit. He decided that he was --

Q Earlier you said Fielding reviewed the file and the President was briefed on it. Now you're saying you're not positive that he was briefed specifically on the lawsuit.

MR. SPEAKES: That's right. Fielding's job in the

transition was to supervise the preparation and completion of these forms, to review them, to interview the candidates for appointment by the President that were announced in the transition, and he did that in the case of Mr. Casey. He decided that there was no problem. I don't know whether he specifically mentioned this to the President-Elect at the time about a pending case, but in Mr. Fielding's opinion the nomination should go forward. It did. These matters were submitted to the Senate Committee. What the Committee elected to do, obviously they did not raise it in any great detail.

Q They didn't raise it, period.

Q You just said about three minutes ago that Fielding briefed the President. Now you're saying you don't know if he briefed the President.

MR. SPEAKES: I'm saying I don't know if he briefed him on this matter. I think both of you guys have missed that.

I've just said it. Helen was talking about the FBI report. They're talking about the disclosure forms.

Q So if Casey goes, then Fielding goes too, is that it?

Q He did brief him on the FBI report?

MR. SPEAKES: Yes.

Q And all of this was in the FBI report?

MR. SPEAKES: I don't know. I haven't seen the FBI report so I don't know. It was in the disclosure form.

Q Who briefed the President on the case, on the court case yesterday?

MR. SPEAKES: I don't know who it was. Probably Baker or Deaver or Meese.

Q Did they read the court decision itself?

MR. SPEAKES: No, I don't think they've read the court decision. We don't have that in hand yet.

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Q And he has made his determination regarding Casey on the basis of news reports regarding the court decision?

MR. SPEAKES: That is correct.

Q You don't have the May 19th court decision in hand yet?

MR. SPEAKES: Not in hand. We are getting it today. It is a long way to New York.

Q Do the Hugel and Casey matters affect the performance of the Agency in the estimation of the administration?

MR. SPEAKES: No, it does not in any way.

Q How are the black-bag operations going, all right?

MR. SPEAKES: As far as I know.

Q How is the O'Connor -- what was it about the meeting, anything that you can tell us?

MR. SPEAKES: No, you saw it. They went back in the Oval Office and talked for a while. The reports from the Hill are very optimistic and we are very confident that she will be confirmed by the Senate and take her place on the Court.

Q What about the F-16s?

MR. SPEAKES: Nothing for you on that today.

Q Did the President question her any further about her views on abortion or --

MR. SPEAKES: I don't think that came up.

Q Let's follow up on Bill's question. Is it clear that there is going to be a decision made and announced on the F-16s before Friday?

MR. SPEAKES: I am not certain before Friday, Sam, but --

Q Well, including Friday, if you will.

MR. SPEAKES: -- before this delivery goes forward.

Q Yes, but the 17th is the delivery date for six, is it not?

MR. SPEAKES: Yes.

Q And you have already said they are going.

Q But you are already on record as saying there will be a decision before the delivery date.

MR. ALLIN: We said, "we anticipate, we hope."

Q Well, why waffle on it? I am just trying to see if there has been a change.

MR. ALLIN: There is no change.

Q Larry, getting back to the President's apparently exquis-

ite ability on the phone with Speaker O'Neill in three minutes to bring about this. There is another report that a spokesman from Moral Majority has said that they were very wrong to have opposed Judge O'Connor. This, too, is an astonishing turn-around, doesn't the White House think, or what? The President certainly apparently had a terribly persuasive power over the Reverend Jerry Falwell, did't he? Could you tell us about that? Was that three minutes, Larry?

Q He just kicked him in the back side.

MR. SPEAKES: I don't know how that came about, Lester, but I have heard the statement and we note it with interest.

Q Do you feel, in view of the fact that you have had such an effective triumph with the Speaker and with Falwell, that you might be able to somehow tone down the John Lofton write-up?

MR. SPEAKES: You are not making any connection between points a, b, or c, Lester.

THE PRESS: Thank you.

END 11:45 A.M. EDT